

1 funding mechanisms should be limited to their area of
2 jurisdiction. So that the FCC should obtain funding from
3 interstate carriers, and the states from carriers of any
4 specific state.

5 But clearly, it gives the responsibility to the
6 FCC and the states jointly to accomplish the universal
7 service goal.

8 MS. TRISTANI: Thank you, Mr. Chairman.

9 MR. KENNARD: Mr. Powell.

10 MR. POWELL: As representatives of institutions
11 that are either competing or preparing to compete, both in
12 existing markets and new markets, I'd be interested in
13 hearing some elaboration from the perspective of each of
14 your companies what the ultimate impact of the outcomes of
15 these decisions will have on your relative competitive
16 advantages or disadvantages. Both in terms of local
17 competition. In the case of AT&T, how it affects its
18 ability to enter new markets. Long distance companies.
19 Local exchange companies who, how it will affect their
20 ability to compete in long distance.

21 And just as importantly, how you think it impacts
22 your ability to innovate and compete in new and emerging
23 markets that aren't normally the subject of the discussion
24 in these sorts of things. Because money coming out here is
25 not used somewhere else. And I'd be curious to hear your

1 perspectives on all three of those markets.

2 Do you want to start, Mr. Lubin?

3 MR. LUBIN: Sure. The reason why I said what I
4 said in terms of my opening comments is that -- I am going
5 to back us up to the FCC's order on access reform, where it
6 looked at the prescriptive approach, it looked at the
7 market-based approach. And it came in, and asked a series
8 of questions of, how can we do prescriptive, how can we do
9 the market-based.

10 And I remember there were certain key paragraphs
11 that I always looked at that says, hey, we have unbundled
12 elements. They are deaveraged. We have forward-looking
13 economic pricing for the setting of the unbundled network
14 elements. And if you get that or the combination thereof,
15 you don't pay access. And there was a wonderful paragraph
16 that said, and by the way, you've got to make sure that
17 these operating support systems are truly operational. And
18 the next sentence was, and can carry significant volumes.

19 And when we looked at that, we obviously wanted a
20 prescriptive approach. But we saw at least intellectually
21 that that could work. The problem is it was an intellectual
22 solution, which effectively has not been operationalized.
23 And because that is not operationalized, we see access
24 prices that are inflated. We see the fact of trying to
25 deaverage the subsidy for universal service. They call it

1 March Madness, in terms of trying to figure out how do I
2 solve the universal service problem when loops are not
3 deaveraged?

4 And so from my point of view, adding on top more
5 costs to me, and then I have to pay 92 percent of the LEC
6 assessment in terms of the access that they float to me that
7 I then recover from my customers, our bottom line is we are
8 going to have great difficulty.

9 And right now we see a size of a fund at 4.9,
10 assuming schools and libraries go to where it may -- maybe
11 it doesn't, but if it does. And then on top of that, we are
12 seeing more high costs coming to us. So our bottom line is,
13 yeah, we have a real problem in terms of trying to figure
14 out how to come into this market.

15 My view is -- and I'll just take, you know, 30
16 more seconds -- we have a real opportunity to try to create
17 competition. Unfortunately, you have an IXZ and a local
18 exchange carrier both touching the same customer. Both
19 touching the same customer. And when they are ultimately
20 meeting the checklist, and in the intralata marketplace
21 competing against us, if we do not have a mass offer to
22 offer customers in a profitable way into the residential
23 marketplace, my view is we will not be an effective party
24 into that residential marketplace.

25 And so what I call March Madness is the concept of

1 deaveraging this subsidy to either wire center or below.
2 And again, I don't know, there are thousands and thousands
3 of wire centers. But I'm only seeing 25 states with one
4 unbundled loop, and maybe four or five with four deaveraged
5 loops.

6 So the logic construct is just not there. I don't
7 understand it. And my bottom line is, yeah, you have people
8 at AT&T very, very concerned that this isn't working. The
9 market base clearly is not working. And so we see a
10 significant dilemma when access prices remain high. Maybe
11 they come down somewhat because of USF reform. But from our
12 point of view, if that isn't working, why are we fixing USF?

13 MR. SMILEY: Let me talk about this from US West's
14 point of view. One of the things that will happen in the
15 rural areas if the universal service fund is not sufficient
16 to support the rural areas, you will see what happened when
17 the interstate highway system went in.

18 You can look at population density maps. And you
19 can plot the interstate highway systems by the color codes
20 for where the densities are. You can actually go through a
21 state like North Dakota or Wyoming or any of these states,
22 and where the population centers, small as they may be, in
23 those states are is right along the interstate highway
24 system. There are some anomalies, but not very many.

25 Our concern is that whether it's us providing the

1 service, whether it's the small telephone companies
2 providing the service, or whether, to your point,
3 Commissioner Powell, competition will ever exist in the
4 rural areas, without an adequate fund you won't see the
5 competition develop in those areas.

6 We will not invest. Others will not invest. And
7 competition will not become robust. And you will see the
8 same density maps for the information superhighway that you
9 see for the current highway system.

10 And that's why federal support from all 50 states
11 is necessary for each and every state, not have it confined
12 to the boundaries within the state.

13 MR. GRIFFIN: From the perspective of the wireless
14 industry, we have one primary goal, which is access to the
15 subsidy so that we can go in and try to be the provider in
16 some of these areas. And in fact, there are a number of
17 instances where, with access to the subsidies and even
18 without, that we're able to come in and provide, in unusual
19 situations, the very best service.

20 And if the Commission can do that and can, the
21 other goal, just to add that the wireless industry has for
22 the Commission is the implementation of -- if we can do
23 that, that would really put us in a position to be an
24 effective provider of local telephone service, and go a long
25 way towards helping to create competition with the benefit

1 of explicit subsidies that, in fact, are portable.

2 MR. TAUKE: On your question about how this
3 affects competition. If I am a local exchange company
4 serving a community where the average cost of service is
5 \$50, and I can get a \$30 subsidy out of, some from
6 someplace, and my competitor cannot, obviously the
7 competitor is never going to offer service in that
8 community.

9 So it's essential, if there is a support mechanism
10 that is flowing into a company from outside, that that
11 support mechanism be explicit. And I think Congress
12 intended that, and made that clear in the Act.

13 I think it's also important to note, however, that
14 Congress didn't say that if you are charging three dollars
15 for voicemail today, that you have to lower that to 10
16 cents, and make the \$2.90 part of the cost of local service.
17

18 I think Congress recognized that in a competitive
19 market, when you price, you have the story sometimes like
20 the razor and the razor blades. Dial tone is often like the
21 razor, and it will become more so as we move to a
22 competitive marketplace, where the price of dial tone will
23 go down because that's the access that the company has to
24 the customer. And the price of other enhanced services --
25 the vertical services and other things -- will be held at

1 their current levels in order to make money off that
2 customer.

3 So I think the key is not looking at each element
4 of the price of the service that the provider offers to the
5 customer. The key is looking at what kind of money that
6 company or provider gets from somebody other than the
7 customer in order to support service to that customer. And
8 that source of funds ought to be explicit.

9 So I think that's how it affects competition in
10 the local exchange market.

11 When we look at other markets, a company like Bell
12 Atlantic, let's say, is going into the PCS business through
13 Primeco. If this fund becomes so large that a company like
14 Primeco has a substantial economic burden to support the
15 universal service fund, without any realistic expectation of
16 being able to collect money from the universal service fund
17 in the foreseeable future, that's going to be a deterrent to
18 the ability of the PCS company to survive and grow. And
19 also, parenthetically, compete effectively with the wire
20 line company.

21 So you have to make certain that we don't have a
22 fund that becomes so heavy, if you will, or expensive that
23 it thwarts the development of the new alternative services
24 that are out there, and supports too greatly the existing
25 wire-line-type technology that's already in place.

1 So I think that's how it would affect the
2 competition for new services.

3 MS. MANDEVILLE: As I mentioned, we are
4 headquartered in Missoula, Montana, which is, from a Montana
5 perspective, an urban area; it has about 50,000 people. And
6 we are looking at competitive ventures in that area.

7 And I think, like so many competitors out there,
8 it is not that structure today does not create competitive
9 opportunities, because it does. Certainly there is a decent
10 amount of uncertainty as to the pace of change or sudden
11 changes that may come up.

12 Montana is one of the states that has a single
13 unbundled network element for loops. It is not the average.
14 And yet, business rates are also at about two and a half or
15 three times residential rates. That creates enough space
16 between the unbundled network element and the business rate
17 of US West to offer alternative services.

18 If suddenly the state would restructure the
19 business rates, and not restructure the underlying network
20 elements, it would suddenly create a problem. So many of
21 our answers are in keys to timing. Each time carriers don't
22 pass through carrier access charge reductions into long
23 distance services, it creates a new competitive opportunity.
24 I think those are out there today. They'll get skinnier and
25 skinnier as time goes on, and we reflect in the rate

1 structure the actual cost of each service.

2 MR. POWELL: Well, just to sum up, I mean, it
3 probably states the obvious. But what you hear in what
4 everyone says is that, at bottom, these things are the
5 imposition of costs. And those costs will have
6 consequences. And we are balancing two places where those
7 costs hit. When they hit the consumer directly. But when
8 they also hit those who provide the services to consumers in
9 a way that ultimately can, if not done carefully, frustrate
10 the ability for those companies to get to a position in
11 which they can offer those customers not only new services,
12 but competitively-priced services.

13 And I suppose the other theme for me that I hear
14 in everyone's words are that we have to be very careful that
15 no matter what costs we pose, they don't provide competitive
16 advantage and disadvantage to companies who historically
17 have been separated from competing, but now are looking to
18 each other as opportunities. Though they have historically
19 paid in in different ways, there will need to be a greater
20 rationalization of the way and manners they pay in order to
21 put them on similar competitive footing.

22 So thank you. And I just have one very simple
23 question, Ms. Mandeville. You talked a little bit about
24 what you anticipated to be the impact of rates on a
25 customer. And I assume that to not include what may even be

1 additional costs to the consumer were the state to begin to
2 have a state-operated universal service fund that will
3 impose also costs on existing competitors in your community,
4 and then find its way back on the bill, as well.

5 MS. MANDEVILLE: That's true, it doesn't include
6 those costs. But I would also say that those customers, if
7 that state restructuring is done, should be the big winners.
8 Long distance customers in the state, if carrier access
9 charges fall drastically, which would create a need for a
10 universal service fund, their total bills should go down.

11 Business customers that today pay two and a half
12 times the cost of residential, yes, they may pay more
13 universal service funds. But they'll be a big winner. TMRS
14 providers have been a big winner in some of these areas.

15 The urban areas should be the big winners in this
16 area. And contributing to universal service is an offset to
17 that.

18 MR. POWELL: Thank you.

19 MR. KENNARD: Commissioner Furchtgott-Roth.

20 MR. FURCHTGOTT-ROTH: Thank you, Mr. Chairman.
21 I'd like to follow up on a question that Commissioner
22 Tristani asked about federal and state responsibilities
23 under 254.

24 I would like to get your opinion specifically on
25 how that applies to 254(h), which is rural health care and

1 schools and libraries. Is there both a state and a federal
2 responsibility for that, as well? I would just like to ask
3 if any of the panelists have a different view than what they
4 said about 254 generally.

5 MR. SMILEY: I think they are all intended to be a
6 national fund supplemented by state.

7 MR. FURCHTGOTT-ROTH: Mr. Tauke.

8 MR. TAUKE: I think that there is a difference in
9 the statute between schools and libraries in the high-cost
10 fund. Clearly in both cases there is an anticipation of a
11 partnership. I believe that in the case of the high-cost
12 fund, and from what we've learned already from the schools
13 and library fund, that there is a need for the Commission to
14 just look at the political and legal risks.

15 And if you start moving into the intrastate funds,
16 or monies, if you will, for purposes of collection, or if
17 you use intrastate for purposes of allocation, it seems to
18 us that you are opening yourselves to greater legal
19 challenge. And that is a very serious problem.

20 I might just say parenthetically, we are concerned
21 about the fact that the funding mechanism, the very Act
22 itself, the funding mechanism in the Act is being challenged
23 as an illegal tax in the courts. We are concerned that the
24 administrative structure has been labelled by the GAO as
25 illegal. We are concerned that politically there are

1 challenges to all parts of universal service. And all of us
2 have an interest in certainty.

3 So whatever you can do in order to sort of reduce
4 the risk that this is going to be subject to legal and
5 political challenge, the better off we are. And that's one
6 of the reasons why we have concluded that you should focus
7 on the money that is moving from one state to another in
8 order to help the high-cost states, and try to collect those
9 funds on the basis of interstate revenues.

10 MS. MANDEVILLE: Commissioner, I have not looked
11 into the specific legalities of that question. I can tell
12 you what Montana is doing.

13 We have a state small, what we call a universal
14 access fund that picked up what we thought may be some gaps
15 in the federal education and health care fund. It funds,
16 for instance, tribal community colleges and some of the
17 tribal schools that we thought might not be picked up. It
18 specifically says it cannot duplicate the federal
19 mechanisms. And that seemed like a good separation, and
20 certainly within the intent of the Act.

21 MR. LUBIN: I don't have anything.

22 MR. FURCHTGOTT-ROTH: Two-fifty-four (h)
23 specifically says that the discount shall be an amount that
24 the Commission with respect to the interstate services, and
25 the states with respect to the intrastate services,

1 determines the appropriate and necessary. Mr. Tauke, if the
2 discount for intrastate services is to be set by states, how
3 is that done without a state collection of the funds?

4 And secondly, is internet access an interstate
5 service?

6 MR. TAUKE: You are putting me on the spot. As
7 you know, our company has tried to work with the Commission
8 to establish a schools and library fund. And we've tried to
9 support the Commission's efforts in that arena because of
10 the desirability of the goal.

11 And having said that, however, I think it is clear
12 that there are some statutory questions about some of the
13 steps that have been taken. And some of those now are being
14 aired out in the courts. We have not chosen to make those
15 legal challenges, because we are trying to look at the
16 larger good here.

17 But I do think that it is, the statute does seem
18 to suggest fairly clearly, as you point out, that the states
19 are the ones that would determine the discounts for
20 intrastate services.

21 In our view, having made that point, I guess on
22 the second question about what is the internet, our view
23 essentially is that the internet is an interstate service.
24 We wish the Commission would make that clear,
25 parenthetically. However, as you know, I think about 17

1 states now have declared it an intrastate service for
2 purposes of reciprocal compensation.

3 Somewhere along the line there has to be a
4 clarification of what the jurisdiction is, or what
5 classification should be provided to that service. And that
6 may be done, not only for purposes of this, but for other
7 purposes, as we go forward.

8 MR. FURCHTGOTT-ROTH: Does anyone else have any
9 comments on those questions? Mr. Lubin?

10 MR. LUBIN: The comment that I have is simply a
11 bottom line. And the bottom line is no matter how you cut
12 it, when you have schools, libraries, or rural health care,
13 and it's been cut back, with the expectation that it could
14 rise, and it could rise a fair amount, and that a way to
15 finesse the issue was to put it on intrastate and
16 interstate, which made sense.

17 But when the Commission then, bottom line, says to
18 the incumbent LEC, your assessment can be recovered back
19 into the interstate jurisdiction. And when you look around
20 in the interstate jurisdiction to see what tariffs are
21 available, and they are only access tariffs. The bottom
22 line is, even though we're recovering, we're assessing it on
23 total revenues, the bottom line is that all -- not all, 93,
24 92 percent -- flows back into interstate access tariffs.

25 And so, for me, simply a bottom-line question is,

1 I don't see that as competitively neutral. And somehow,
2 some way, there has got to be a way to fix that. What we
3 have said in various reports, to you and to Congress, is
4 that the way to fix that -- and I think one of the
5 Commissioners implied it this morning -- is simply you call
6 it for what it is, and you put it on the bottom line of the
7 bill. And, you know, you don't make it explicit here, and
8 then funnel it into a tariff over there.

9 And by the way, when you do that, back to
10 Commissioner Powell's earlier question, there are
11 competitive implications. Competitive implications with
12 unbundled network elements or total service resale, and I
13 won't bore you with all of that. But somehow, some way,
14 that's got to get fixed, from my point of view.

15 Thank you.

16 MS. MANDEVILLE: Commissioner, I think that the
17 internet problem points out the, I guess, ultimate inability
18 to clearly distinguish between interstate and intrastate.
19 Data shopping today is fairly blatant between jurisdictions.

20 I think states probably threw up their hands and
21 said, "If it's not access, it must be local, so it's subject
22 to reciprocal compensation." Not that they wouldn't like it
23 to be access. But that is the fundamental problem that we
24 will see with more and more services, if we try and make a
25 clear distinction between interstate and intrastate.

1 MR. LUBIN: One other thing to your question,
2 Commissioner, which I really didn't respond to. And that
3 is, it's our position that we think the internet, with
4 regard to telephony, should pay the assessment taxes, or the
5 assessment rates for the various universal service funds.

6 Thank you, Mr. Chairman.

7 MR. KENNARD: Thank you, Commissioner.
8 Commissioner Ness.

9 MS. NESS: Thank you, Mr. Chairman. Mr. Tauke, I
10 agree with you that regulatory certainty and certainty in
11 all of these different intertwining areas is critical in
12 order for us to get on with competition. You know, it's
13 just crazy how all of these companies, in every single area,
14 keep filing in court, including challenging as
15 unconstitutional 271. But that's the way of life here. And
16 it's a pity that that's the case, but that is the case, and
17 we have to deal with it.

18 At times I figure that, I mean, I sort of feel
19 like deja vu. I've been hearing these same arguments, and
20 each time that we've done a forum it's been helpful, but it
21 still goes round and round and round. Part of it is perhaps
22 that the Act, in its eloquence, creates simultaneous
23 equations, where some of the -- too many of the elements are
24 defined. And thus, trying to put the pieces together makes
25 it extremely difficult.

1 Having said that, I would like to go back a little
2 bit to what was discussed in the first panel. And that was
3 the ad hoc proposal. And see if any of you had thoughts
4 with respect to the pros of such a proposal, and the
5 negatives of such a proposal. Beginning with you,
6 Mr. Tauke.

7 MR. TAUKE: I think this panel has highlighted one
8 of the problems we have had in discussing the universal
9 service issue.

10 A number of the participants I think have operated
11 from the context that we are talking about the models. And
12 we, at Bell Atlantic, spend a lot of time on models.

13 Our belief is, certainly my personal view is, you
14 cannot come up with a model that is fair, equitable, and
15 will withstand legal challenge.

16 And also, when you go back and read the Act, you
17 don't need a model. And in fact, the models historically
18 dated from pre-Act days. They were created for, they were
19 being developed prior to the enactment of the Act to deal
20 with the universal service system as it existed at that
21 time.

22 So I would like to suggest, first, that we should
23 ignore for a moment the models, and then try to figure out
24 what the Act requires.

25 We believe that the Act suggests, as the ad hoc

1 plan suggests, that the FCC, the national fund, focus on the
2 transfer of monies between, or I should say among, the
3 states, and not focus on the amount of money being given for
4 a given company or a given wire center or a given customer.
5 But the national fund should focus on the transfer of monies
6 among the states.

7 Then the states would deal with the second layer
8 of issues. So in that sense, I believe that our comments
9 would be consistent with the comments of the ad hoc group.

10 The ad hoc group, I think, has, in determining
11 what monies should go between the states, has looked at the
12 models, and they looked at the existing system. That may be
13 appropriate. I think that how you determine exactly what
14 goes between the states is, in a sense, a somewhat arbitrary
15 decision, although you have to have justification for it.

16 We believe a better approach is to use a
17 mechanism, whether you use one of the models, a combination
18 of the models, or data you already have on hand, but use
19 some mechanism to get a fair and equitable assessment of
20 costs. And the important thing here is the relative nature
21 of the cost from state to state.

22 And if you determine that on an average basis,
23 then you determine how much money has to flow from one state
24 to another.

25 So I think that the basis of the model is correct.

1 We would probably have some suggestions relating to details.

2 MS. NESS: If we were to go with the
3 state-by-state approach, that's based on the costs as
4 assessed by the state, where is the incentive for the state
5 to cut down on costs? To squeeze out additional costs?

6 MR. TAUKE: I don't think you should rely on the
7 states to make the cost assessment. Because obviously each
8 state would have a huge incentive to inflate their costs in
9 order to get more money out of the federal funds.

10 You do need some kind of a mechanism that would
11 use the same standard for assessing costs in Vermont as they
12 do in New York, in California as they do in Iowa. And so
13 you need to get a common standard for assessing costs in
14 order to have fairness and equity.

15 MS. NESS: Ms. Mandeville.

16 MS. MANDEVILLE: I would agree with the last
17 points made there, that you may not be able to rely on that
18 to cut costs.

19 I would also say that, just looking at it, it
20 appears to say that your responsibility is to states and not
21 to customers. And I think your responsibility under the Act
22 is to customers.

23 If a state decides to take all that support and
24 give it to US West, I don't think that my customers are
25 going to let you off the hook.

1 I very much respect what they have tried to do.
2 One of the key indications was this takes a great deal of
3 compromise. I may sit here and agree with you to trade some
4 of my universal service support for getting out a 251
5 mandate. I think anyone who came in and said, "I want a
6 section 251 resale agreement," would say that you did not
7 have the ability to negotiate that away.

8 And so I think that same thing exists. You don't
9 have the ability to negotiate away the universal service
10 requirements.

11 MS. NESS: Can you tell me how much, on average,
12 your customers pay for basic telephone service?

13 MS. MANDEVILLE: It varies from a low in some of
14 our small exchanges of about \$10, up to a high of about \$20
15 in some areas. And depending on how far out of town they
16 are. We have some zone charges.

17 MS. NESS: Mr. Lubin.

18 MR. LUBIN: With regard to the ad hoc proposal, I
19 only have a high-level knowledge base, so I can only comment
20 relative to that.

21 But the significant concerns that I have with it
22 are the concept that there is roughly about \$600 million
23 more needed. And it isn't clear to me why there should be
24 \$600 million. And again, it gets back to what level of
25 disaggregation was used. So that, to me, is a big issue.

1 Conversely, if the plan were, and which I thought
2 was the original plan, but I realized they are talking with
3 a lot of different people and plans evolved, the original
4 plan was it was roughly not an increase; it was roughly
5 taking the existing dollars, and then redistributing them
6 amongst the parties. That has a better attribute, from my
7 point of view, especially if you remove the dollars, which
8 is about \$114 million for the existing major ILECs.

9 The second concern that I have is that, with the
10 number that I heard this morning from Chairman Welch, the
11 \$600 million, my understanding is that is new money entering
12 into the system, but would not be used to lower interstate
13 access. It would presumably be used to lower intrastate
14 rates, is my understanding. But not interstate access. And
15 not necessarily intrastate access. So, to me, that is a
16 significant concern.

17 The third concern, which I will say, but I will
18 also say I'm not totally sure, but at least some people have
19 implied to me, that the money is not competitively neutral
20 distributed. So I have one question, in terms of how does
21 it get distributed amongst the parties; namely, the
22 incumbents. But then the second question is, you know, is
23 it competitively neutral if somebody else enters into the
24 market. And if somebody knows the answer to that, I'd
25 appreciate hearing it.

1 MS. NESS: I will go back to your first point.
2 And I thought that Chairman Welch did an excellent job of
3 pointing out that you can distinguish between disaggregating
4 cost and disaggregating the price to the consumer. And that
5 your point about not having deaveraged rates for unbundled
6 elements is a very good one.

7 Mr. Smiley.

8 MR. SMILEY: Like Mr. Lubin, I have only a
9 high-level knowledge of the ad hoc plan. But from what I
10 understand, even the modest increase that they would see in
11 the overall size seems, to me, to be short-sighted.

12 I think most of the money that today is in the
13 fund goes to small companies. Interstate access provides
14 about \$18 billion in support. And if the new fund is
15 created to the size of the old, then it seems to me that the
16 FCC will not be able to reduce access charges to the way
17 that they had intended. And --

18 MS. NESS: Mr. Smiley, can I ask you, have you
19 deaveraged the cost of your unbundled network elements?

20 MR. SMILEY: As you know, we serve 14 different
21 states. We have cost dockets in various proceedings. Some
22 states have, and some have not. So it is a mix.

23 In Minnesota, we have not concluded the final cost
24 docket. AT&T, for instance, has proposed nine separate
25 zones. And the final decision is not in.

1 MS. NESS: But you would argue, though, that the
2 cost does vary loop to loop, area to area.

3 MR. SMILEY: Yes, it does.

4 MS. NESS: And therefore, that you ought to be
5 able to receive funds where the cost is greater in a
6 particular area. Even though, if you look across all of
7 those loops, the average for you might work out --

8 MR. SMILEY: Might be X.

9 MS. NESS: -- to be X.

10 MR. SMILEY: You know, I think the issue is that
11 if you're going to get into a wholesale deaveraging, or
12 deaveraging of loops, you also need to deaverage your prices
13 at the same time. Because one without the other just won't
14 work.

15 MS. NESS: Mr. Griffin.

16 MR. GRIFFIN: Well, as a wireless carrier, I would
17 say I have not even a high-level understanding of the --

18 MS. NESS: Fair enough.

19 MR. GRIFFIN: -- ad hoc proposal. For which I can
20 probably report that I'm pretty pleased.

21 I will say that just conceptually -- and we are,
22 from the wireless perspective, we are looking at these
23 things perhaps more broadly than some. To the extent that
24 the ad hoc proposal is suggesting that there are new funds
25 added to the total, it seems to me, as I said in my earlier

1 remarks, that that goes beyond the concept of simply making
2 implicit subsidies explicit. Because you clearly don't
3 create a single new dollar by converting from implicit to
4 explicit. And you have now quickly moved into a whole new
5 area of regulation when you begin to add monies to the
6 funds.

7 MS. NESS: It's a bit like a shell game, where you
8 are trying to find where the pea is. And certainly, you are
9 correct that if right now one can argue that there are
10 affordable rates across the country, one would wonder, at
11 the end of the day, why additional funds would be added.
12 Maybe there needs to be a recalculation making some explicit
13 less -- making funds explicit, but adding new funds will,
14 has to certainly be justified, based on where we are.

15 I think my time has gone, and I think folks are
16 probably going to be interested in going to lunch. So
17 Mr. Chairman, let me pass it back to you.

18 MR. KENNARD: Okay. Thank you, Commissioner. I
19 have outlined publicly some principles which I believe
20 should govern reform of universal service.

21 And one of those principles calls for the states
22 to reform their own universal service funding mechanisms as
23 a condition to additional federal support.

24 And I'd like to know your views on that. And I'd
25 like to start with you, Ms. Mandeville. Because I noticed

1 in your testimony, you said that federal support cannot be
2 conditioned on restructuring or reforming the intrastate
3 system. And, one, I'd like additional comment from you on
4 that.

5 And second, I'd like to know, from you and the
6 other panelists, if you believe that there should be
7 additional federal support to the intrastate jurisdiction.
8 How can we incentivize the states to use that additional
9 funding efficiently, and ensure that there is some reform at
10 the state level before additional funding is made?

11 MS. MANDEVILLE: Mr. Chairman, we do believe that
12 you cannot condition universal service support on state
13 actions. In Montana it takes the Legislature to give the
14 State Commission authority to do a universal service fund.

15 If the State Legislature chooses not to do that --
16 and they do have some temporary stopgap authority that
17 sunsets at the beginning of '99. If they choose not to do
18 that, then Montana simply would be without a universal
19 service fund.

20 I think that doesn't say you can ignore the
21 universal service mandates of the Act.

22 Having said that, we have great discussions going
23 on in the state about a state universal service fund, and
24 pricing reform, not having to do with what you are doing,
25 but having to do with state needs. We have state carrier